Wisconsin's
"Section 529" College Savings Program
2008 Annual Report

Covering the Fiscal Year July 1, 2007 – June 30, 2008

EDVEST®

tomorrow's scholar®
college savings plan

Prepared by:

College Savings Program Board
Office of the State Treasurer
October 2008

INTRODUCTION

Wisconsin has a long tradition of placing a high value on post-secondary education for its citizens. It was one of the first states to recognize the need for incentives to encourage families to save in advance for the increasing costs of higher education. In 1996, the state legislature authorized the creation of a state-sponsored college savings program. Today it is made up of two parts, EdVest and *tomorrow's scholar*, and together they serve over 240,000 future students with over $2 billion in assets under management. Participants can choose from a broad selection of investment options featuring underlying investments by several major fund companies. Accounts qualify for numerous state and federal tax benefits. This is the program's eleventh annual report covering the fiscal year July 1, 2007 – June 30, 2008. EdVest celebrated its eleventh anniversary of operations at the close of the fiscal year.

Wisconsin's college savings program is governed by an eleven-member College Savings Program Board appointed by the Governor, and administered by the Office of State Treasurer, with investment and participant services provided under contract by Wells Fargo Funds Management LLC.

This report includes the following information:

- Summary of key developments in fiscal year 2007-08
- Program activity and statistics as of June 30, 2008
- Investment performance as of June 30, 2008
- Summary of the annual financial audit report
- Summary of the annual actuarial valuation report
- Description of the College Savings Program Board and membership
- History of the program
- Recommendations for improvements to the program.

KEY DEVELOPMENTS THIS YEAR

<u>Wisconsin Higher Education Day</u> – Wisconsin's constitutional officers signed a joint proclamation again in 2007 for the second annual Higher Education Day. By partnering with the UW System, WAICU, the Wisconsin Technical Colleges, WASFAA, and the Wisconsin School Counselor Association, events and awareness activities were held all across the state on October 9. Their intent was to: 1) increase the number of families setting higher education as a goal for their children, 2) illustrate the numerous paths and options now available to achieve higher education, and 3} distribute information about financial aid, saving for college and other education resources. The website was modified and improved from 2006 and the Treasurer announced a Higher Education Day Essay Contest which had over 1,000 entries from students addressing why they would like to go to college. The winners received EdVest scholarships totaling $4,000.

<u>EdVest CD Investment Option</u> – The launch of the new insured CD option for EdVest was delayed when the Board received notice from the FDIC in April 2007 that the program's innovative August 2006 proposal had been rejected. The Board referred the proposal back to its CD Working Group for further evaluation and restructuring. In May 2008, the Board approved an alternate structure of the CD Portfolio based on FDIC recommendations. The CD Option will launch on October 1, 2008. The Portfolio invests in Wisconsin banks and credit unions and the underlying investments are insured by the FDIC or the NCUA for up to $100,000.

<u>Conservative Portfolio Developed</u> – To enhance the enrollment-based tracks of the EdVest program, a new Conservative Portfolio was created in May 2008. The new Conservative Portfolio, which invests 30% in underlying stock funds and 70% in underlying bond funds, provides investors with a more measured asset allocation plan and will allow for a more gradual rebalancing process in their enrollment-based tracks. It is also available as a stand-alone fixed portfolio. The Portfolio will launch on October 1, 2008.

<u>New Program Director</u> – In December 2007, the Director for the entire length of the program, Marty Olle, retired. The new Director is Megan Perkins.

Plan Maximum – In May 2008, the Board approved raising the maximum amount for an account to $330,000 from $246,000. The amount had not been raised since the program began.

IRS Proposed Regulations – The IRS released advance notice of proposed rulemaking for Section 529 programs in January 2008. The advance notice indicated that the rulemaking notice, when published, would repropose most of the initial Section 529 regulations proposed in 1998, with adjustments reflecting statutory changes and comments received to date from the financial services industry, states, and other interested parties. The Advanced Notice focused on the expected content of new regulations primarily designed to prevent what Treasury officials perceive as a risk of abusive gift tax avoidance and addressed certain income tax and recordkeeping requirements under Section 529. The State of Wisconsin, using a suggested draft supplied by the College Savings Program Network, sent a comment letter. The proposed regulations have been delayed by the IRS until 2009 at the earliest.

EdVest DVD – In 2007, the Treasurer's Office and Wells Fargo, the Program Manager, developed a 13-minute DVD about the EdVest program. The DVD sought to help market and explain the program to groups unfamiliar with how 529 programs worked. The DVD was sent to every elementary and middle school in the state as well as every public library to be included in their collections. In addition, the DVD is used at public appearances around the state when staff cannot attend. The EdVest program brochure was also offered to kindergarten students through an elementary school effort. Over 10,000 brochures were sent out to kindergarten students.

Investment Evaluation/Removal Policy – In February 2008, the Board approved and edited a watch list policy for funds and portfolios that do not meet established criteria. If a fund/portfolio is put on watch, it is watched for a year with quarterly updates on performance to the Board. After a year, the Board votes to determine the status of the fund/portfolio in the future. In February, the Board put the first funds/portfolios on watch due to underperformance versus their benchmarks.

PROGRAM ACTIVITY AND STATISTICS

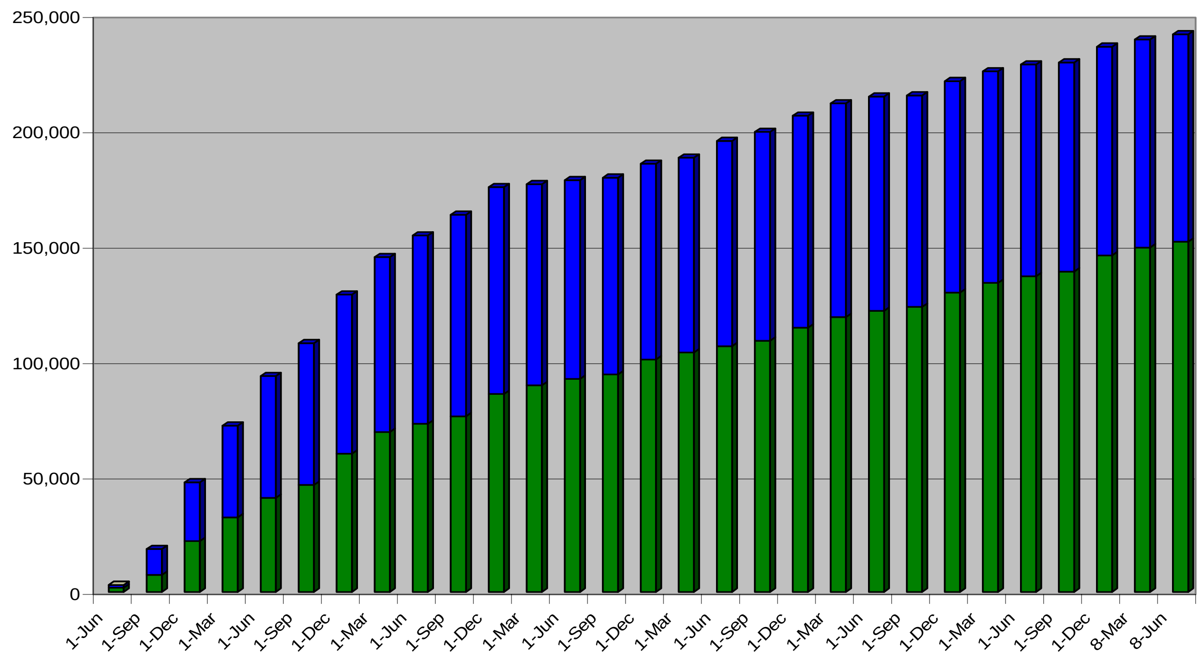
Program activity for the fiscal year is summarized in the following graphs and tables. As of June 30, 2008 there were a total of 241,561 accounts and investment assets totaled $2,155,092,446. Compared with figures from June 30, 2007 this was a 5.7% increase in the number of accounts and a .29% increase in assets under management.

	EdVest	***tomorrow's scholar***	***Total***
Number of accounts	151,702	89,859	241,561
Assets under management	$1,251,167,034	$903,925,412	$2,155,092,446
Average account size	$7,587	$9,237	$8,192
Wisconsin residency	92%	9%	61%
Average wait time for toll-free callers			12 seconds
Average e-mail response time			15 hours, 25 minutes

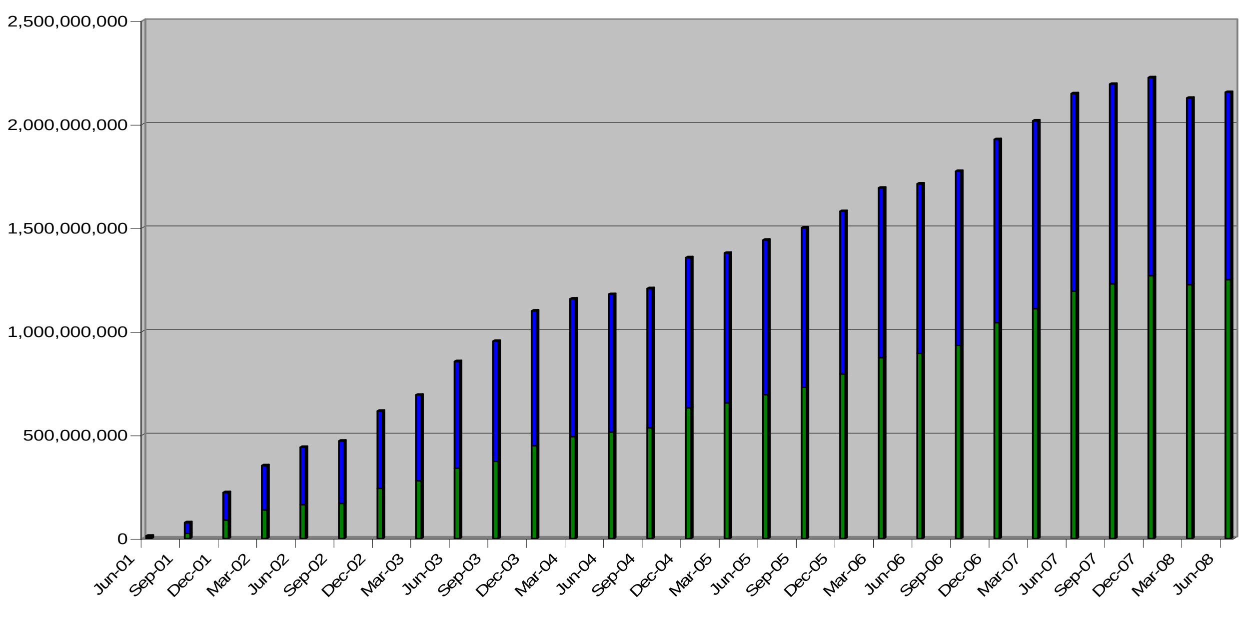
= EdVest

= tomorrow's scholar

Wisconsin "529" College Savings Program
Cumulative Total Accounts



Wisconsin "529" College Savings Program
Cumulative Total Assets



INVESTMENT PERFORMANCE

The portfolios available through Wisconsin's College Savings Programs are designed to help investors pursue their goals of growth and income as they invest to pay for a future college education. While all of the portfolios are intended to provide a degree of diversification by investing in varying proportions of equity and fixed-income securities, each is designed to accommodate investors' specific investment goals and tolerance for risk.

In a volatile 12-month period ended June 30, 2008 that saw significant declines in domestic and international equities, only certain conservative portfolios that were entirely invested in fixed-income securities delivered positive returns. The best returns were delivered by the Investor Class shares of the Wells Fargo Bond Portfolio, which gained 6.67% for the 12-month period. The weakest returns were delivered by Class A shares of the Legg Mason Aggressive Portfolio, which declined 37.02% over the same period. Overall, each portfolio's performance was driven by its allocation to fixed-income securities. This trend reflected a volatile market environment that favored conservative investments over equities.

Investment returns for the Tuition Unit investment option varied between 0.69% – 5.16% depending on the date of purchase and the year in which the unit matures. Tuition Units were the only investment option offered by the program from its initial launch in 1997 until 2001. Tuition Unit sales were discontinued December 20, 2002.

EDVEST College Savings Plan
Portfolio Performance Summary as of June 30, 2008

	Portfolio Performance			Benchmark Performance		
Direct	**1-Year**	**3-Year**	**Incept**	**1-Year**	**3-Year**	**Incept**
EdVest Aggressive	-8.60%	6.50%	3.70%	-10.45%	5.57%	3.82%
EdVest Moderate	-5.71%	5.86%	4.17%	-6.66%	5.35%	4.34%
EdVest Balanced	-2.52%	5.25%	4.37%	-2.79%	5.00%	4.74%
EdVest Bond	6.67%	4.05%	4.06%	7.12%	4.09%	5.45%
EdVest Ultra-Conservative	3.98%	3.62%	2.96%	3.48%	3.80%	2.42%
Legg Mason Aggressive	-32.99%	-3.09%	1.12%	-12.69%	4.73%	6.39%
Vanguard Stock Index	-13.36%	4.07%	1.46%	-13.12%	4.41%	2.14%
Vanguard Balanced	-3.78%	7.30%	7.71%	-5.94%	4.66%	6.01%
Baird Bond	3.61%	2.97%	3.67%	7.12%	4.09%	4.41%
Wisconsin Select	-7.89%	N/A	3.76%	-5.67%	N/A	4.98%

	Portfolio Performance			Benchmark Performance		
Class A Shares	**1-Year**	**3-Year**	**Incept**	**1-Year**	**3-Year**	**Incept**
EdVest Aggressive – A	-8.79%	6.20%	3.36%	-10.45%	5.57%	3.82%
EdVest Moderate – A	-5.91%	5.51%	3.81%	-6.66%	5.35%	4.34%
EdVest Balanced – A	-2.73%	4.95%	3.96%	-2.79%	5.00%	4.74%
EdVest Bond – A	6.43%	3.78%	3.65%	7.12%	4.09%	5.45%
EdVest Ultra-Conser. – A	3.72%	3.32%	2.64%	3.48%	3.80%	2.42%
Legg Mason Aggressive – A	-33.16%	-3.39%	0.78%	-12.69%	4.73%	6.39%
Vanguard Stock Index – A	-13.65%	3.75%	1.11%	-13.12%	4.41%	2.14%
Vanguard Balanced – A	-4.03%	6.98%	7.35%	-5.94%	4.66%	6.01%
Baird Bond – A	3.29%	2.66%	3.34%	7.12%	4.09%	4.41%
Wisconsin Select – A	-8.10%	N/A	3.49%	-5.67%	N/A	4.98%

	Portfolio Performance			Benchmark Performance		
Class B Shares	**1-Year**	**3-Year**	**Incept**	**1-Year**	**3-Year**	**Incept**
EdVest Aggressive – B	-9.41%	5.50%	2.75%	-10.45%	5.57%	3.82%
EdVest Moderate – B	-6.65%	4.83%	3.18%	-6.66%	5.35%	4.34%
EdVest Balanced – B	-3.44%	4.27%	3.34%	-2.79%	5.00%	4.74%
EdVest Bond – B	5.73%	3.09%	3.03%	7.12%	4.09%	5.45%
EdVest Ultra-Conser. – B	3.00%	2.65%	2.06%	3.48%	3.80%	2.42%
Legg Mason Aggressive – B	-33.58%	-4.00%	0.15%	-12.69%	4.73%	6.39%
Vanguard Stock Index – B	-14.25%	3.06%	0.57%	-13.12%	4.41%	2.14%
Vanguard Balanced – B	-4.61%	6.30%	6.71%	-5.94%	4.66%	6.01%
Baird Bond – B	2.55%	2.00%	2.68%	7.12%	4.09%	4.41%

	Portfolio Performance			Benchmark Performance		
Class C Shares	**1-Year**	**3-Year**	**Incept**	**1-Year**	**3-Year**	**Incept**
EdVest Aggressive – C	-9.47%	5.40%	2.65%	-10.45%	5.57%	3.82%
EdVest Moderate – C	-6.63%	4.75%	3.05%	-6.66%	5.35%	4.34%
EdVest Balanced – C	-3.47%	4.15%	3.21%	-2.79%	5.00%	4.74%
EdVest Bond – C	5.59%	2.96%	2.92%	7.12%	4.09%	5.45%
EdVest Ultra-Conser. – C	2.95%	2.55%	1.93%	3.48%	3.80%	2.42%
Legg Mason Aggressive – C	-33.60%	-4.07%	0.04%	-12.69%	4.73%	6.39%
Vanguard Stock Index – C	-14.25%	2.99%	0.57%	-13.12%	4.41%	2.14%
Vanguard Balanced – C	-4.71%	6.18%	6.57%	-5.94%	4.66%	6.01%
Baird Bond – C	2.56%	1.91%	2.58%	7.12%	4.09%	4.41%
Wisconsin Select – C	-8.80%	N/A	2.71%	-5.67%	N/A	4.98%

Portfolio Benchmarks

Vanguard Stock Index:	S&P 500 Total Return Index
Wells Fargo Aggressive:	77% Russell 3000, 13% MSCI EAFE, 10% Lehman Brothers U.S. Aggregate Bond Index
Wells Fargo Moderate:	60% Russell 3000, 30% Lehman Brothers U.S. Aggregate Bond, 10% MSCI EAFE Index
Wells Fargo Balanced:	43% Russell 3000 and 50% Lehman Brothers U.S. Aggregate Bond, 7% MSCI EAFE Index
Wells Fargo Bond:	100% Lehman Brothers U.S. Aggregate Bond Index
Ultra-Conservative:	Retail Lipper Money Market Average
Baird Bond:	100% Lehman Brothers U.S. Aggregate Bond Index
Vanguard Balanced:	65% Russell 3000, 35% Lehman Brothers U.S. Aggregate Bond Index
Legg Mason Aggressive:	100% Russell 3000 Index
Wisconsin Select:	54% Russell 3000, 11% MSCI EAFE, 35% Lehman Brothers U.S. Aggregate Bond Index

Performance is net of all portfolio expenses, and does not include the effect of applicable sales charges.Average annual total return and total return measure change in the value of an investment in the portfolio, assuming reinvestment of all dividends and capital gains.

Average annual total return reflects annualized change, while total return reflects aggregate change and is not annualized.

Tomorrow's Scholar College Savings Plan
Portfolio Performance Summary as of June 30, 2008

Class A Shares	Portfolio Performance 1-Year	Portfolio Performance 3-Year	Portfolio Performance Incept	Benchmark Performance 1-Year	Benchmark Performance 3-Year	Benchmark Performance Incept
TS Aggressive Growth – A	-8.44%	6.50%	3.03%	-10..49%	5.84%	3.99%
TS Growth – A	-6.23%	6.00%	3.51%	-7.62%	5.51%	4.28%
TS Moderate Growth – A	-4.24%	5.21%	3.62%	-4.72%	5.22%	4.58%
TS Balanced – A	-2.77%	4.58%	3.34%	-2.74%	4.66%	4.53%
TS Conservative – A	-0.30%	4.41%	3.94%	0.19%	4.53%	4.86%
TS Income – A	1.87%	3.90%	3.87%	3.15%	4.36%	5.15%
TS Ultra-Conservative – A	3.66%	N/A	3.50%	3.48%	N/A	3.88%

Class B Shares	Portfolio Performance 1-Year	Portfolio Performance 3-Year	Portfolio Performance Incept	Benchmark Performance 1-Year	Benchmark Performance 3-Year	Benchmark Performance Incept
TS Aggressive Growth – B	-9.08%	5.77%	2.37%	-10..49%	5.84%	3.99%
TS Growth – B	-6.85%	5.25%	2.87%	-7.62%	5.51%	4.28%
TS Moderate Growth – B	-4.88%	4.50%	2.94%	-4.72%	5.22%	4.58%
TS Balanced – B	-3.51%	3.84%	2.69%	-2.74%	4.66%	4.53%
TS Conservative – B	-1.02%	3.68%	3.26%	0.19%	4.53%	4.86%
TS Income – B	1.13%	3.17%	3.22%	3.15%	4.36%	5.15%
TS Ultra-Conservative – B	2.94%	N/A	2.79%	3.48%	N/A	3.88%

Class C Shares	Portfolio Performance 1-Year	Portfolio Performance 3-Year	Portfolio Performance Incept	Benchmark Performance 1-Year	Benchmark Performance 3-Year	Benchmark Performance Incept
TS Aggressive Growth – C	-9.18%	5.72%	2.33%	-10..49%	5.84%	3.99%
TS Growth – C	-6.89%	5.18%	2.79%	-7.62%	5.51%	4.28%
TS Moderate Growth – C	-4.89%	4.42%	2.89%	-4.72%	5.22%	4.58%
TS Balanced – C	-3.60%	3.82%	2.64%	-2.74%	4.66%	4.53%
TS Conservative – C	-1.11%	3.63%	3.20%	0.19%	4.53%	4.86%
TS Income – C	1.05%	3.09%	3.16%	3.15%	4.36%	5.15%
TS Ultra-Conservative – C	2.89%	N/A	2.74%	3.48%	N/A	3.88%

Portfolio Benchmarks

Aggressive Growth:	77% Russell 3000, 13% MSCI EAFE, and 10% Lehman Brothers U.S. Aggregate Bond Index
Growth:	64% Russell 3000, 11% MSCI EAFE, and 25% Lehman Brothers U.S. Aggregate Bond Index
Moderate Growth:	51% Russell 3000, 9% MSCI EAFE, and 40% Lehman Brothers U.S. Aggregate Bond Index
Balanced:	43% Russell 3000, 7% MSCI EAFE, and 50% Lehman Brothers U.S. Aggregate Bond Index
Conservative:	30% Russell 3000, 5% MSCI EAFE, and 65% Lehman Brothers U.S. Aggregate Bond Index
Income:	17% Russell 3000, 3% MSCI EAFE, and 80% Lehman Brothers U.S. Aggregate Bond Index
Ultra-Conservative:	Retail Lipper Money Market Average

Performance is net of all portfolio expenses, and does not include the effect of applicable sales charges.
Average annual total return and total return measure change in the value of an investment in the portfolio, assuming reinvestment of all dividends and capital gains.
Average annual total return reflects annualized change, while total return reflects aggregate change and is not annualized.

ANNUAL ACTUARIAL VALUATION REPORT

An actuarial valuation report was prepared by Milliman USA, Inc. dated October 2008. The report addresses the original Tuition Unit portion of the program, concluding that the program's Tuition Trust Fund had adequate assets to meet future investment commitments and an actuarial surplus of $1,008,000 as of June 30, 2008. Copies of the report are available upon request.

ANNUAL FINANCIAL AUDIT

The annual financial audit of the EDVEST and *tomorrow's scholar* programs was conducted by KPMG, LLP. KPMG audited the statement of assets and liabilities of the programs including the schedules of investments, the related statements of operations, changes in net assets and financial highlights for the fiscal year 2007-2008. The audit report states that the presentation of the financial statements conforms with generally accepted accounting principles, and in the opinion of the auditors, the financial statements and financial highlights in the report represent fairly the financial position of the portfolios as of June 30, 2008.

For more detail including the actual audit opinion, the reader is directed to the complete audit report, posted on the State Treasurer's Office website: www.ost.state.wi.us/home/edvest.html

COLLEGE SAVINGS PROGRAM BOARD

The College Savings Program Board has administrative and oversight authority for the EDVEST expansions provided in 1999 Wisconsin Act 44. It consists of five *ex-officio* members including the State Treasurer, the President of the Board of Regents of the University of Wisconsin system, the Chairperson of the State Investment Board, President of the Wisconsin Association of Independent Colleges and Universities, President of the Wisconsin Technical College System, and six public members. The ex-officio members may appoint designees to serve in their place. Except for the initial members, public members are appointed by the Governor for 4-year terms. Alberta Darling is the Board Chair, the Vice Chairs are William Oemichen and Patrick Sheehy and members as of June 30, 2008 include:

Name	Affiliation	Address	Term Expires
Paul C. Adamski	Public Member	Stevens Point	May 1, 2009
Mary Cook	Public Member	Mt. Horeb	May 1, 2011
Alberta Darling	Public Member	River Hills	May 1, 2009
William Oemichen	Public Member	New Glarus	May 1, 2011
Jeff Plale	Public Member	South Milwaukee	May 1, 2011
Patrick Sheehy	Public Member	Mequon	May 1, 2009
Ken Johnson	State Investment Board	Madison	Ex-Officio Designee
Dawn Marie Sass	State Treasurer	Belleville	Ex-Officio
Deborah Durcan	UW Board of Regents	Madison	Ex-Officio Designee
Rolf Wegenke	WI Assn. Of Independent Colleges and Universities	Madison	Ex-Officio
Michael Rosen	Wisconsin Technical College System Board	Milwaukee	Ex-Officio Designee

The board promulgated rules to administer the program, oversees the investment and distribution of program funds, ensures that the program continues to meet federal requirements for a "Section 529 qualified tuition program" and seeks guidance from federal entities as necessary to ensure proper administration of Wisconsin's 529 College Savings Program.

The board has adopted the following mission statement: "Promote educational opportunities for Wisconsin residents by removing financial barriers through a structured, tax-advantaged program allowing families and individuals to save for future higher education expenses."

Regular quarterly Board meeting notices, agendas, meeting minutes and other board news can be found on the State Treasurer's Office website at:
http://www.statetreasury.wisconsin.gov/meetings.asp?meetingid=147&locid=155

HISTORY OF THE PROGRAM

Initial Launch -- On June 6, 1996 state legislation was signed into law authorizing the creation of a state-sponsored college savings program and providing a loan for start-up costs. The program was named EDVEST and was initially managed by the Department of Administration. It began operations July 1, 1997 offering a conservative bond-based "tuition unit" investment with state and federal tax benefits to participating families. Investment services were provided by the State Investment Board. Shortly after the program launch, the Internal Revenue Service published proposed rules for "Section 529" college savings programs, defining the parameters that states could operate within.

A 1999-2001 biennial budget provision authorized the transfer of the program to the Office of the State Treasurer for ongoing operations. The move was completed in November 1999 with no interruption of service to program participants.

2001 Expansion and "Re-Launch" -- Additional state legislation was passed in the spring of 2000 [1999 Wisconsin Act 44] authorizing the program to expand in several key areas and creating a board to oversee the expansion. The "Act 44" provisions allowed EDVEST to utilize all of the scope and flexibility of a "Section 529" program. The legislation provided broader eligibility and coverage, allowed a higher maximum contribution limit, created a new state tax deduction for parents, expanded the number of investment options, eliminated the residency requirement and established protection of eligibility for state financial aid to program participants. It directed the state to contract with a private firm to provide investment and other services for the new program.

The State Department of Administration issued a Request for Proposals for broad financial services related to the expansion of the EDVEST program. At the conclusion of a national search, Strong Capital Management of Menomonee Falls, Wisconsin was selected as the program manager. A second version of the program, named *tomorrow's scholar*, was developed in conjunction with American Express, to be distributed through its financial advisors nationwide. After a period of intense planning and development, as well as passage of state legislation to formally provide the trust fund structure necessary for operation [2001 Wisconsin Act 7] the program was re-launched in May 2001. The EDVEST website, administered by Strong, was completely revised with a new address, www.EdVest.com and has received several national awards. The *tomorrow's scholar* website was launched as www.tomorrowsscholar.com.

In May 2001 six new market-based investment options were made available to program participants, as well as the original "Tuition Unit" option offered through the State Investment Board. Participants could open accounts by mail, online or by visiting one of the program manager's Investor Centers across the state. In addition to this "direct enrollment," participants were given the option of enrolling through financial advisors, planners, brokers, banks and credit unions, who generally charge commissions or fees for their services. Financial firms desiring to offer the program to their clients sign a selling agreement with the program manager. Investors working through one of these professionals have several payment options available.

Start-up Loan Repaid to State – The 2001 expansion produced rapid growth and in June 2002 the program was able to repay to the state its initial start-up loan and operating subsidies, totaling $962,383. The program has been completely self-supporting since then.

Tuition Unit Phase-out -- In 2002, a decision was reached to phase out the original “tuition unit” investment option. Public interest in this option was dwindling and the bond market at that time produced record-low investment yields for new “unit” purchases. Also, tuition units were significantly less flexible than the newer investment options offered through the program. Tuition unit sales were suspended on December 20, 2002.

Tuition unit account owners were given the option of either holding their units until maturity or transferring units to one of the other investment options at a favorable conversion rate. Of the 2,800 tuition unit accounts established by December 2002, over half of the account owners elected to convert to one of the program’s newer investment options. By June 30, 2008 tuition unit assets under management dropped from a high of $15.4 million to $4.8 million. Recordkeeping and account maintenance of the remaining tuition unit accounts were contracted out to the program manager, whose extended hours of availability and ability to quickly generate account distribution checks upon request were a customer service improvement. The State of Wisconsin Investment Board continues to provide investment services for the tuition unit portfolio.

Stable Value Portfolio -- In 2002, the Board became interested in adding a new investment option for short-term or conservative EDVEST participants. Nationally, there was growing interest among 529 programs in Stable Value funds, which offer growth comparable to bond funds, liquidity for withdrawals, protection of principal and low management fees. In May 2002 the program contracted with actuarial firm Milliman USA, Inc. for an analysis of conservative investment options for EDVEST. The consultants recommended adding a Stable Value fund option to the program, and following a period of development, the Stable Value Portfolio was launched December 2, 2002. By June 30, 2006 investments in the portfolio exceeded $93.8 million.

Mutual Fund Industry Investigations -- In September 2003, the New York Attorney General launched a widespread investigation of trading practices in the mutual fund industry. A number of Section 529 college savings programs were affected, when the investment companies providing services to the programs became targets of the investigation. Strong Financial Corp. was accused of participating in market timing arrangements with a hedge fund. One of the funds in question, the Strong Growth Fund, was part of several EDVEST and *tomorrow’s scholar* investment portfolios. Strong cooperated fully with state and federal regulators with respect to the inquiries into these matters and a $175 million settlement was announced in May 2004. The College Savings Program Board’s legal counsel continues to monitor the settlement distribution to ensure appropriate reimbursement to program participants if it is determined that Strong’s actions adversely affected investors in the EDVEST or *tomorrow’s scholar* plans.

Additional EdVest Investment Options Offered Using Three New Fund Companies – In response to the mutual fund crisis described above, the Board and the Department of Administration hired an independent consultant to recommend portfolios using four mutual funds from companies other than Strong, and worked with Strong to make them available as part of the EDVEST program. Beginning December 15, 2003 participants were able to select among the Vanguard Stock Index Portfolio, Vanguard Balanced Portfolio, Legg Mason Aggressive Portfolio or Baird Bond Portfolio in addition to six Strong portfolios. From December 15, 2003 to June 30, 2006 assets in the four popular new investment options grew to $310.6 million.

EDVEST Pricing Structure Improved – When the EDVEST program was re-launched in May, 2001 a simple “one price fits all” pricing structure was chosen. At that time, annual fees paid by all investors totaled 1.25%. The fee was reduced to 1.15% in late 2002. In December 2003 when new investment options were added, the board approved a new fee structure, which varied according to the actual costs of the investment option selected. The new structure ranged from a low of 0.45% annually for the passively-managed Vanguard Stock Index Portfolio to a high of 1.3% for the actively-managed EdVest Aggressive Portfolio. The new fee structure allowed investors to select an option based on cost as well as type of investment. The Board also approved eliminating the $10 EDVEST enrollment fee at its February 2004 meeting. Additional, significant pricing changes have occurred since the Board approved assignment of the mandate to Wells Fargo Funds Management.

State Tax Deduction Expanded – The popular state tax deduction for parent and grandparent contributions to an EDVEST or *tomorrow’s scholar* account was expanded for the 2004 tax year, with the signing into law of 2003 Wisconsin Act 289. The new law allows aunts, uncles and great-grandparents to deduct from taxable state income up to $3,000 per year per child. To be eligible for the deduction, contributions must be made to a program account by December 31 of a calendar year.

Wells Fargo Purchases Strong and Assumes Program Contracts – In May 2004 Wells Fargo Funds Management LLC announced its intent to purchase the asset management businesses from Strong Financial Corporation (SFC). This process was successfully completed in December 2004. The Department of Administration evaluated the State's options concerning the original program contracts with Strong and decided to allow the Strong contracts, which expired in May 2006, to be assigned to Wells Fargo. A top priority at Wells Fargo following the acquisition of Strong was to achieve a seamless transition for all program participants. Wells proposed a number of program improvements as well, to be implemented in a program "re-launch" in September 2005.

Board Hires Consultant to Monitor Ongoing Investment Performance – In late 2004, following a competitive search, the Board contracted with consultants Evaluation Associates, Inc. (EAI) of Norwalk, Connecticut. EAI reviews the program's portfolio benchmarks, provides independent monitoring of all program portfolio performance quarterly, compares performance annually with similar portfolios offered by other state 529 programs, and makes recommendations for improvements as needed.

Program Administrative Contracts Re-Bid – Although the program's administrative contracts were assigned to Wells Fargo from Strong Capital Management, Inc. after close of business on December 31, 2004, the assigned contracts expired in April 2006. The state re-bid the contracts using a nationwide competitive procurement process. The Department of Administration issued a request for proposals in October 2005. Following extensive review of the submittals, Wells Fargo was selected as program manager for a five-year term, and a contract was negotiated which became effective May 1, 2006.

EDVEST Portfolios Improved, Fees Lowered Again and New Investment Options Launched **–** Following the contract assignment, Wells Fargo proposed multiple EDVEST changes for the September 2005 program "re-launch". The Board deliberated the proposals extensively, negotiated modifications, and added several items of its own. The state also negotiated additional enhancements during the re-bidding process.

- A new investment option, the "Wisconsin Select Portfolio," invests in mutual funds managed by firms with a significant presence in Wisconsin, including Artisan, Marshall (M&I), Mason Street (American Century, originally Northwestern Mutual), North Track (Ziegler), Robert W. Baird, Thompson Plumb and Wells Fargo.

- Two additional "age-based" or "years-to-college" investment options ["Aggressive Growth" and "Conservative Growth"] were created, and the original age-based option was renamed "Moderate Growth." The age-based portfolio is the most popular investment option offered by the program.

- The underlying Wells Fargo Advantage Funds in the Aggressive, Moderate, Balanced, and Bond Portfolios were reallocated for better tracking of the benchmarks and to reduce fees. In addition, Wells Fargo's administration fee for is now subject to "breakpoints," which will reduce this fee by as much as 30% in future years as the program continues to grow. Total program fees are now some of the lowest among all "529" college savings plans nationally.

- The $20 annual account maintenance fee payable to Wells Fargo is now waived for accounts where either the owner or beneficiary is a Wisconsin resident. Existing waivers still apply.

- For advisor-sold accounts, the Class A maximum front-end sales charge was reduced to 4.5% for the fixed income portfolios and 2.0% for the Stable Value Portfolio. The equity-based portfolios remain at 5.75%. Over two-thirds of all EDVEST accounts are direct-sold, and have no commissions or sales charges.

- For advisor-sold accounts, the trailing commission charged on Class A and Class shares was reduced from 0.45% to 0.25% and from 1.15% to 1.00%, respectively.

- The minimum contribution to an EdVest account was reduced from the current $25 to $15. This is intended to allow greater participation from lower and moderate-income families.

tomorrow's scholar Restructured, Broader Distribution Offered – Following the contract assignment, Wells Fargo proposed multiple *tomorrow's scholar* changes for the September 2005 program "re-launch". The Board deliberated the proposals extensively and negotiated modifications. The state also negotiated additional enhancements during the re-bidding process.

- Originally, *tomorrow's scholar* was offered only through Ameriprise Financial Advisors [formerly American Express Financial Advisors]. The program is now available for distribution through Wells Fargo advisors and more than 450 third-party financial firms across the country.
- All existing portfolios were diversified to include underlying mutual funds from Wells Fargo Advantage Funds, RiverSource Funds [formerly American Express], Franklin Templeton and ING Funds.
- A Stable Value Portfolio similar to the EDVEST portfolio was created as a new investment option, and the "age-based" investment options were revised to incorporate the new Stable Value Portfolio.
- All portfolios were made available for purchase as static allocation options. Previously, only three of the six original portfolios were available as static allocation options.
- The $20 annual account maintenance fee payable to Wells Fargo is now waived for accounts where either the owner or beneficiary is a Wisconsin resident. Existing waivers still apply.
- The maximum Class A front-end sales charges were set at 5.75% for equity portfolios, 4.5% for fixed income portfolios and 2.0% for the Stable Value Portfolio for new accounts. All existing accounts were "grandfathered" under the existing sales charge structure.

State Fee Reduction and Moratorium -- The Board approved a reduction of the annual state administration fee for *tomorrow's scholar* accounts from 0.15% to 0.10%, effective September 2005. The Board also approved a moratorium waiving the annual state administration fee of 0.10% for EDVEST accounts. The moratorium will remain in effect as long as the Board's contingency fund maintains an adequate balance.

SAGE Scholars Tuition Discount Benefit Added to Program – In July 2006 Wells Fargo signed on with the SAGE Scholars program to offer EdVest and *tomorrow's scholar* account owners the opportunity to earn Tuition Rewards points each quarter, based on the balance in their 529 accounts. Each point equals one dollar in guaranteed undergraduate tuition discounts at participating private schools nationwide. It costs nothing to participate and the rewards points can be redeemed if a student is accepted at a participating private school. Accounts can earn a maximum value of one year's tuition, which is spread over four years, roughly the equivalent of a 25% discount on tuition.

EdVest and *tomorrow's scholar* Portfolio Modifications Further Reduce Fees – In January 2007 a series of portfolio reallocations approved by the College Savings Program Board were implemented, increasing portfolio diversification and reducing expenses by up to 0.14% for an annual savings to investors of $733,000.

Stable Value Portfolio Converted to Ultra-Conservative Money Market Fund Portfolio – In June 2007 the EdVest and *tomorrow's scholar* Stable Value investment portfolios were renamed the Ultra-Conservative Portfolios, and the underlying investments were reallocated to the Wells Fargo Heritage Money Market Fund. This action is expected to produce savings to investors of $344,000 annually through lower portfolio expenses.

EdVest Insured CD Option -- The Board and Wells Fargo worked extensively to develop a federally insured certificate of deposit investment option for conservative investors, those with a short-term investment horizon or those who are uncomfortable with mutual fund investments. The CD Portfolio will be launched on October 1, 2008. The EdVest CD Option will be administered in a manner similar to the other investment options offered by the program. State law [2005 Wisconsin Act 478] was enacted in June 2006 to create the trust fund structures necessary to obtain federal insurance for EdVest participants.

RECOMMENDED PROGRAM IMPROVEMENTS

Divorced Parents Legislation – In past years, legislation has been introduced to alter the manner in which divorced parents can claim the $3,000 tax deduction for their children. Currently, the total amount for which a deduction may be claimed under the college tuition and expenses program and the college savings program, per beneficiary, by any claimant, may not exceed $3,000 each year and, in the case of a married couple filing a joint return, the total annual deduction under these two programs, per beneficiary, claimed by the married couple may not exceed $3,000. Under the introduced bills, an income tax deduction for amounts contributed may be claimed by a divorced or legally separated parent of a child. The deduction may be claimed without regard to whether the child is his or her dependent. The Program agrees that the total annual deduction under these two programs, per beneficiary, claimed by married parents who file jointly or separately, or by each divorced or legally separated parent of a child, may not exceed $3,000. The total annual deduction per beneficiary, claimed by a married person who files separately would not exceed $1,500 per claimant. Our program supports this change and will continue to monitor bills introduced in the 2008-2009 session.

Contingency Fund Use – The Board has expressed a desire to expand its marketing outreach to underserved populations in the state. In order to do this, the Board is interested in exploring using a portion of the $7 million contingency fund (possibly the interest earned) on an annual basis. The Board will explore this through its Outreach Subcommittee. The request would need to come in a 13.10 appropriation from the State Legislature.

Administrative Budget Appropriations Modification -- The two budget appropriations for the program's administrative expenses are classified as Segregated Fund "annual" appropriations. Under this classification, if any significant unexpected expense is encountered during a biennium, the program must submit a request for additional budget authority to the Legislative Joint Committee on Finance. A request must be submitted even if adequate revenues are on hand to cover the expense. The committee generally meets quarterly, but depending on timing it may take up to six months before the request is considered by the committee.

The Board recommends that the program's administrative appropriations, s.20.585(2)(s) and (tm), be converted to "continuing" appropriations. Under this classification, requests for emergency additional budget authority can be acted upon by the Department of Administration, presumably in less time than under current procedures.